Bourse de Montréal Inc.

CIRCULAR
May 29, 2003

HOUSEKEEPING AMENDMENTS TO POLICY C-3 – "JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT"

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the "Bourse") has approved housekeeping amendments to references in statements B and C, and to schedules 6A, 7A, 9, 13 and 13A of Policy C-3 of the Bourse entitled "Joint Regulatory Financial Questionnaire and Report". These amendments become effective immediately.

SUMMARY OF AMENDMENTS

The amendments to the Policy C-3 of the Bourse are as follows:

- **STATEMENT B – STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL**
  - line 19, "Acceptable counterparties financing activities concentration charge" has been added to report on a separate line the concentration charge calculated in Schedule 7A;
  - lines 19 to 26 have been renumbered lines 20 to 27 to reflect the addition of line 19;
  - the references of Statement B – Supplemental, dealing with unresolved differences, have been changed from "line 19" to "line 20" to reflect the renumbering changes that have been made to Statement B;
  - notes and instructions for line 19 and line 20 have been changed to Notes and Instructions for line 20 and line 21, respectively, to reflect the renumbering changes that have been made to Statement B.

- **STATEMENT C – STATEMENT OF EARLY WARNING EXCESS AND EARLY WARNING RESERVE**

  The references to Lines 1 and 4 have been changed from "B-26" and "B-21" to "B-27" and "B-22", respectively, to reflect the renumbering changes that have been made to Statement B.

Circular no.: 075-2003
Amendment no.: 009-2003

- **SCHEDULE 6A – TAX RECOVERIES**

  The references to Lines 7, 9 and 12 have been changed from “B-21”, “B-23” and “B-25” to “B-22”, “B-24” and “B-26”, respectively, to reflect the renumbering changes that have been made to Statement B.

- **SCHEDULE 7A – ACCEPTABLE COUNTERPARTIES FINANCING ACTIVITIES CONCENTRATION CHARGE**

  The reference “B-19” has been added to Line 9 to reflect the addition of Line 19 to Statement B.

- **SCHEDULE 9 – CONCENTRATION OF SECURITIES**

  - The reference in the last column, Concentration Charge, has been changed from “B-25” to “B-26” to reflect the renumbering changes that have been made to Statement B;
  - The references in paragraphs 8 c) and 9 of the Notes and Instructions have been changed from “Statement B, Line 6” to “Statement B, Line 4” to reflect previous amendments to Statement B.

- **SCHEDULE 13 – EARLY WARNING TESTS –LEVEL 1**

  The references in paragraph B, Lines 1 and 2, have been changed from “Statement B, Line 26” and “Statement B, Line 21” to “Statement B, Line 27” and “Statement B, Line 22”, to reflect the renumbering changes that have been made to Statement B.

- **SCHEDULE 13A – EARLY WARNING TESTS – LEVEL 2**

  The references in paragraph B, Lines 1 and 2, have been changed from “Statement B, Line 26” and “Statement B, Line 21” to “Statement B, Line 27” and “Statement B, Line 22”, to reflect the renumbering changes that have been made to Statement B.

For further information, please contact Eric Bernard, Financial Analyst, Regulatory Division at (514) 871-4949, ext. 373, or via e-mail at ebernard@m-x.ca.

Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary

Encl.

JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT
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(Firm Name)

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(Date)

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PART I
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL

(as at ________________________ with comparative figures as at ______________________)

REFERENCE		CURRENT YEAR	PREVIOUS YEAR
1. A-73	Total financial statement capital	$________	$________
2. A-29	**Deduct:** Non allowable assets	________	________
3.	NET ALLOWABLE ASSETS	$________	$________
4.	**Deduct:** Minimum capital	________	________
5.	SUBTOTAL	________	________
	Deduct - amounts required to fully margin:		
6. Sch.1	Loans receivable, securities borrowed and resold	________	________
7. Sch.2	Securities owned and sold short	________	________
8. Sch.2A	Underwriting concentration	________	________
9.	Syndicate and joint trading accounts *[attach details]*	________	________
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21.	Other *[attach details]*	________	________
22.	TOTAL MARGIN REQUIRED *[lines 6 through 21]*	________	________
23.	SUBTOTAL *[line 5 less line 22]*	________	________
24. Sch.6A	**Add:** Applicable tax recoveries	________	________
25.	Risk Adjusted Capital before securities concentration charge *[line 23 plus line 24]*	________	________
26. Sch.9 Sch.6A	**Deduct:** Securities concentration charge of _________ less tax recoveries of __________	________	________
27.	RISK ADJUSTED CAPITAL *[line 25 less line 26]*	$===========	$===========

PART I
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

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(Firm Name)

Statement B – Line 20: Details of Unresolved Differences

	Reconciled as at Report Date (Yes/No)	Number of items	Debit/Short value (Potential Losses)	Number of items	Credit/Long value (Potential Gains)	Required to margin
(a) Clearing						
(b) Brokers and dealers						
(c) Bank accounts						
(d) Intercompany accounts						
(e) Mutual Funds						
(f) Security Counts						
(g) Other unreconciled differences						
TOTAL						Statement B Line 20

STATEMENT B
NOTES AND INSTRUCTIONS

EACH MEMBER SHALL HAVE AND MAINTAIN AT ALL TIMES RISK ADJUSTED CAPITAL IN AN AMOUNT NOT LESS THAN ZERO.

Line 4 - "minimum capital" is $250,000 ($75,000 for Type 1 introducing brokers).

Line 9 - This line should include margin requirement for syndicate accounts where the firm is the lead underwriter and joint trading accounts. If the firm has "drawn down" a portion of the new issue positions from the syndicate account to its inventory accounts, those portions should be disclosed as firm's inventory and be included in Schedules 2 and possibly 2B. If the firm is not the lead underwriter but a Banking Group member, margin requirement should be reported on Schedule 2.

If the other syndicate member is a Regulated Entity, a related company of the Member firm, or an Acceptable Institution, then no margin need be provided by the firm. In the case of an Acceptable Counterparty the amount of margin to be provided, **commencing on regular settlement date** (i.e. the contracted settlement date as specified for that issue), shall be the equity deficiency of (a) the net market value of all settlement date security positions in the entity's accounts and (b) the net money balance on a settlement date basis in the same accounts. For all other parties the amount of margin to be provided by the firm, **commencing on regular settlement date,** shall be the margin deficiency, if any, that exists in the account.

Line 13 - No firm may give, directly or indirectly, by means of a loan, guarantee, the provision of security or of a covenant or otherwise, any financial assistance to an individual and/or corporation unless the amount of the loan, guarantee, provision of security or of the covenant or any other assistance is limited to a fixed or determinable amount and the amount is provided for in computing Risk Adjusted Capital. The margin required shall be the amount of the loan, guarantee, etc. less the loan value of any accessible collateral, calculated in accordance with the rules and regulations of the Joint Regulatory Bodies. A guarantee of payment is not acceptable collateral to reduce margin required.

Details of the margin calculations for contingencies such as guarantees or returned cheques should be provided as an attachment to this Statement.

Line 18 - 100% of the market value of securities plus applicable margin must be provided (less any margin already provided on those securities) in the case where client or inventory securities are held at locations which do not qualify as Acceptable Securities Locations (see General Notes and Definitions).

<u>Securities</u>

1. held by an entity with which the Member has not entered into a written custodial agreement as required by the bylaws, rules and regulations of the Joint Regulatory Authorities, or

2. in respect of which a positive audit confirmation has not been received in respect of a foreign location approved by a Joint Regulatory Authority and not specified in the definition of acceptable securities location,

shall be considered as being held at non-acceptable securities locations and capital provided for as above.

<u>Client Waiver</u>

Where the laws and circumstances prevailing in a foreign jurisdiction may restrict the transfer of securities from the jurisdiction and the Member is unable to arrange for the holding of client securities in the jurisdiction at an acceptable securities location, the Member may hold such securities at a location in that jurisdiction if (a) the Member has entered into a written custodial agreement with the location as required hereunder and (b) the client has consented to the arrangement, acknowledged the risks and waived any claims it may have against the Member, in a form approved by the Joint Regulatory Authority. Such a consent and waiver must be obtained on a transaction by transaction basis.

Line 20 - Items are considered unresolved unless:

(i) a written acknowledgement from the counterparty of a valid claim has been received

(ii) a journal entry to resolve the difference has been processed as of the Due Date of the questionnaire.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of the questionnaire.

Provision should be made for the market value and margin requirements at the questionnaire date on out of balance short securities and other adverse unresolved differences (e.g. with banks, trust companies, brokers, clearing corporations), still unresolved as at a date one month subsequent to the questionnaire date or other applicable Due Date of the questionnaire.

STATEMENT B
NOTES AND INSTRUCTIONS (Cont'd)

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for securities eligible for reduced margin, the margin rate is 25%, rather than 30%.

A separate schedule, in a form approved by the Joint Regulatory Authority, must be prepared detailing all unresolved differences as at the report date.

The following guidelines should be followed when calculating the required to margin amount on unresolved items:

Type of Unresolved Difference	***Amount Required to Margin***
Money balance — credit (potential gains) — debit (potential losses)	None Money balance
Unresolved Long with Money on the Member's Book	[(Money Balance on the trade minus market value of the security)* plus the applicable inventory margin]
Unresolved Long without Money on the Member's Books	None
Unresolved Short with Money on the Member's Books	[(Market value of the security minus money balance on the trade)* plus the applicable inventory margin]
Unresolved Long/Short on the Other Broker's Books	None
Short Security Break (e.g. Mutual Funds, Stock Dividends) or Unresolved Short without Money on the Member's Books	[Market value of the security plus the applicable inventory margin]

* also referred to as the Mark to Market Adjustment.

Where mutual fund positions are not reconciled on a monthly basis, margin shall be provided equal to a percentage of the market value of such mutual funds held on behalf of clients. Where no transactions in the mutual fund, other than redemptions and transfers, have occurred for at least six months and no loan value has been associated with the mutual fund, the percentage shall be 10%. In all other cases, the percentage shall be 100%.

Unresolved Differences in Accounts: Report all differences determined on or before the report date that have not been resolved as of the due date.

July 31 **August 31**

(Report date) (Due date)

Include differences determined on or before the report date that have not been resolved as of the due date.
¾ ®
Do not include differences as of the report date that have been resolved on or before the due date.
¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ¾ ® |

For each account listed, set out the number of unresolved differences and the money value of both the debit and credit differences. The Debit/Short value column includes money differences and market value of security differences, which represent a potential loss. The Credit/Long value column includes money differences and market value of security differences, which represent a potential gain. In determining the potential gain or loss, the money balance and the security position market value of the same transaction should be netted. Debit/short and credit/long balances of different transactions cannot be netted.

All reconciliation must be properly documented and made available for review by the Vice-President, Financial Compliance and Member's Auditor.

Unresolved differences in Security Counts: Report all security count differences determined on or before the report date that have not been resolved as of due date. The amount required to margin is the market value of short security differences plus the applicable inventory margin.

Line 21 - This item should include all margin requirements not mentioned above as outlined in the bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund.

DATE:__________________________ STATEMENT C

PART I
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

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(Firm Name)

STATEMENT OF EARLY WARNING EXCESS AND EARLY WARNING RESERVE

REFERENCE			CURRENT YEAR
1.	B-27	RISK ADJUSTED CAPITAL	$===========
2.		LIQUIDITY ITEMS -	
		DEDUCT:	
	A-19	(a) Other allowable assets	_ _ _ _ _ _ _ _ _
	Sch.6A	(b) Tax recoveries	_ _ _ _ _ _ _ _ _
		ADD:	
	A-66	(c) Long term liabilities	_ _ _ _ _ _ _ _ _
	Sch.6A	(d) Tax recoveries - income accruals	_ _ _ _ _ _ _ _ _
3.		EARLY WARNING EXCESS	$===========
4.		**DEDUCT:** CAPITAL CUSHION -	
	B-22	Total margin required $_ _ _ _ _ _ _ _ _ multiplied by 5%	$_ _ _ _ _ _ _ _
5.		EARLY WARNING RESERVE *[line 3 less line 4]*	$===========

NOTES:

The Early Warning system is designed to provide advance warning of a Member firm encountering financial difficulties. It will anticipate capital shortages and/or liquidity problems and encourage firms to build a capital cushion.

Line 1 - If Risk Adjusted Capital of the firm is less than:

(a) 5% of total margin required (line 4 above), then the firm is designated as being in Early Warning category **Level 1**, or
(b) 2% of total margin required (line 4 above), then the firm is designated as being in Early Warning category **Level 2**,

and the applicable sanctions outlined in the bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund will apply.

Lines 2(a) and (b) - These items are deducted from RAC because they are illiquid or the receipt is either out of the firm's control or contingent.

Line 2(c) - Long term liabilities are added back to RAC as they are not current obligations of the firm and can be used as financing.

Line 2(d) - This addback ensures that the firm is not penalized at the Early Warning level for accruing income. The net result is that the firm is in the same position as if the revenue were treated on a cash basis.

Line 3 - If Early Warning Excess is negative, the firm is designated as being in Early Warning category **Level 2** and the sanctions outlined in the applicable bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund will apply.

Line 5 - If the Early Warning Reserve is negative, the firm is designated as being in Early Warning category **Level 1** and the sanctions outlined in the applicable bylaws, rules and regulations of the Joint Regulatory Bodies and the Canadian Investor Protection Fund will apply.

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

TAX RECOVERIES

A. TAX RECOVERY FOR RISK ADJUSTED CAPITAL:

1. 6-A5 Current year tax provision *[must be greater than 0, else N/A]* .... $ ________

2. A-22 Commission and/or fees receivable (non allowable assets) of $__________ multiplied by an effective corporate tax rate of _____% .... ________

3. TAX RECOVERY - ASSETS *[100% of lesser of lines 1 and 2]* .... ________

4. Balance of current provision available for margin and securities concentration charge tax recovery *[line 1 minus line 3]* .... ________

5. Recoverable taxes from preceding three years of $__________ net of current year tax recovery (if applicable) of $__________ .... ________

6. Total available for margin tax recovery *[line 4 plus line 5]* .... ________

7. B-22 Total margin required of $______ multiplied by an effective corporate tax rate of _____% .... ________

8. TAX RECOVERY - MARGIN *[75% of lesser of lines 6 and 7]* .... $ ________

9. **TOTAL TAX RECOVERY BEFORE TAX RECOVERY ON SECURITIES CONCENTRATION CHARGE** ***[line 3 plus line 8]*** .... $________ B-24

10. Balance of taxes available for securities concentration charge tax recovery *[line 6 minus line 8, must be greater than 0, else N/A]* .... ________

11. Sch.9 Total securities concentration charge of $_______ multiplied by an effective corporate tax rate of ______% .... ________

12. **TAX RECOVERY - SECURITIES CONCENTRATION CHARGE** ***[75% of lesser of lines 10 and 11]*** .... ________ B-26

13. **TOTAL TAX RECOVERY RAC** ***[line 3 plus line 8 plus line 12]*** .... $________ C-2(b)

B. TAX RECOVERY FOR EARLY WARNING CALCULATION:

1. 6-A5 Current year tax provision *[must be greater than 0, else N/A]* .... $____________

2. A-16 Commission and/or fees receivable (allowable assets) .... $_ _ _ _ _ _ _

3. A-22 Commission and/or fees receivable (non allowable assets) .... $_ _ _ _ _ _ _

4. SUBTOTAL *[line 2 plus line 3]* .... $_ _ _ _ _ _ _ _

5. Line 4 multiplied by an effective corporate tax rate of _____% .... $____________

6. **TAX RECOVERY - INCOME ACCRUALS** ***[100% of lesser of lines 1 and 5]*** .... $________ C-2(d)

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

"ACCEPTABLE COUNTERPARTIES" FINANCING ACTIVITIES CONCENTRATION CHARGE

1. "Market value deficiency" amount relating to loans receivable from "acceptable counterparties" reported on Schedule 1, line 2, net of legal offsets and margin already provided .... $ _ _ _ _ _ _ _ _

2. "Market value deficiency" amount relating to securities borrowed from "acceptable counterparties" reported on Schedule 1, line 6, net of legal offsets and margin already provided .... _ _ _ _ _ _ _ _

3. "Market value deficiency" amount relating to resale agreements with "acceptable counterparties" reported on Schedule 1, line 10, net of legal offsets and margin already provided .... _ _ _ _ _ _ _ _

4. "Market value deficiency" amount relating to loans payable to "acceptable counterparties" reported on Schedule 7, line 3, net of legal offsets and margin already provided .... _ _ _ _ _ _ _ _

5. "Market value deficiency" amount relating to securities lent to "acceptable counterparties" reported on Schedule 7, line 7, net of legal offsets and margin already provided .... _ _ _ _ _ _ _ _

6. "Market value deficiency" amount relating to repurchase agreements with "acceptable counterparties" reported on Schedule 7, line 11, net of legal offsets and margin already provided .... _ _ _ _ _ _ _ _

7. **TOTAL "MARKET VALUE DEFICIENCY" EXPOSURE WITH "ACCEPTABLE COUNTERPARTIES", NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED** *[Sum of lines 1 to 6]* .... $==============

8. **CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS** .... $__________

9. **FINANCING ACTIVITIES CONCENTRATION CHARGE** *[Excess of line 7 over line 8, otherwise NIL]* .... $==============

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

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(Firm Name)

CONCENTRATION OF SECURITIES

[excluding securities required to be in segregation or safekeeping & debt securities with a margin rate of 10% or less (see note 4)]

Description of Security *[note 5]*	Client position long/(short) *[note 6]*	Firm's own long/(short) *[note 7]*	Unit Price	Market value	Effective Margin rate	Loan value of securities *[note 2]*	Adjustments in arriving at amount loaned	"Amount loaned" *[note 8]*	Amount cleared within five business days	Adjusted amount loaned	Concen-tration charge *[note 9]*
											________
=											========

[see notes and instructions]

SCHEDULE 9
NOTES AND INSTRUCTIONS

General

1. The purpose of this schedule is to disclose the largest ten issuer positions that are being relied upon for loan value whether or not a concentration charge applies. **If there are more than ten issuer positions where a concentration exposure exists, then all such issuer positions must be listed on the schedule.**

2. For the purpose of this schedule, an issuer position must include all classes of securities for an issuer (i.e. all long and short positions in equity, convertibles, debt or other securities of an issuer other than debt securities with a normal margin requirement of 10% or less) where:

   - loan value is being extended in a margin account, cash account, delivery against payment account, receipt against payment account; or
   - an inventory position is being held.

3. Securities that are required to be in segregation or safekeeping should not be included in the issuer position. Securities that have been segregated but are not required to be can still be relied on by the Member for loan value and must be included in the issuer position.

4. For the purpose of this schedule only, stripped coupons and residuals, [if they are held on a book based system, and are in respect of federal and provincial debt instruments], should be margined at the same rate as the underlying security.

5. For short positions, the loan value is the market value of the short position.

Client position

6. (a) Client positions are to be reported on a **settlement date basis** for client accounts including positions in margin accounts, regular cash accounts [when any transaction in the account is outstanding after settlement date] and delivery against payment and receipt against payment accounts [when any transaction in the account is outstanding after settlement date]. Within each client account, security positions that qualify for a margin offset may be eliminated.

   (b) Positions in delivery against payment and receipt against payment accounts with Acceptable Institutions, Acceptable Counterparties, or Regulated Entities resulting from transactions that are outstanding less than ten business days past settlement date are not to be included in the positions reported. If the transaction has been outstanding ten business days or more past settlement **and** is not confirmed for clearing through an Acceptable Clearing Corporation or not confirmed by the Acceptable Institution, Acceptable Counterparty or Regulated Entity, then the position must be included in the position reported.

Firm's own position

7. (a) Firm's own inventory positions are to be reported on a trade date basis, including new issue positions carried in inventory twenty business days after new issue settlement date. All security positions that qualify for a margin offset may be eliminated.

   (b) The amount reported must include uncovered stock positions in market-maker accounts.

Amount Loaned

8. The client and firm's own positions reported are to be determined based on the combined client/firm's own long or short position that results in the largest amount loaned exposure.

   (a) To calculate the combined amount loaned on the long position exposure, combine:
   - the loan value of the gross long client position (if any) contained within client margin accounts;
   - the weighted market value (calculated pursuant to the weighted market value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, Cash Accounts Instruction (b)) of the gross long client position (if any) contained within client cash accounts;
   - the market value (calculated pursuant to the market value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (a)) and/or loan value (calculated pursuant to the loan value calculation set out in Schedule 4, Note 9, DAP and RAP Accounts Instruction (b)) of the gross long client position (if any) contained within client delivery against payment accounts; and
   - the loan value (calculated pursuant to the Notes and Instructions to Schedule 2) of the net long firm's own position (if any).

(b) To calculate the combined amount loaned on the short position exposure, combine
- the market value of the gross short client position (if any) contained within client margin, cash and receipt against payment accounts; and
- the market value of the net short firm's own position (if any).

(c) If the loan value of an issuer position (net of issuer securities required to be in segregation/safekeeping) does not exceed one-half (one-third in the case of an issuer position which qualifies under either Note 9(a) or 9(b) below) of Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4) as most recently calculated, the completion of the column titled "Adjustments in arriving at Amount Loaned" is optional. However, nil should be reflected for the concentration charge.

(d) In determining the amount loaned on either a long, or short position exposure, the following adjustments may be made:

(i) Security positions that qualify for a margin offset may be excluded, as previously discussed in notes 6(a) and 7(a);

(ii) Security positions that represent excess margin in the client's account may be excluded. (Note if the starting point of the calculations is securities not required to be in segregation/safekeeping, this deduction has already been included in the loan value calculation of Column 6.);

(iii) In the case of margin accounts, 25% of the market value of long positions in any: (a) non-marginable securities or, (b) securities with a margin rate of 100%, in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;

(iv) In the case of cash accounts, 25% of the market value of long positions in any securities whose market value weighting is 0.000 (pursuant to Schedule 4, Note 9, Cash Accounts Instruction (a)) in the account may be deducted from the amount loaned calculation, provided that such securities are carried in readily saleable quantities only;

(v) The amount loaned values of trades made with financial institutions that are not Acceptable Institutions, Acceptable Counterparties or Regulated Entities, if the trades are outstanding less than 10 business days past settlement date, and the trades were confirmed on or before settlement date with a settlement agent that is an Acceptable Institution may be deducted from the amount loaned calculation; and

(vi) Any security positions in the client's (the "Guarantor") account which are used to reduce the margin required in another account pursuant to the terms of a guarantee agreement shall be included in calculating the amount loaned on each security for the purposes of the Guarantor's account.

(e) Amount Loaned is the position exposure (either long or short) with the largest calculated amount loaned.

Concentration Charge

9. (a) Where the Amount Loaned reported relates to securities issued by

(i) the member, or

(ii) a company, where the accounts of a member are included in the consolidated financial statements and where the assets and revenue of the member constitute more than 50% of the consolidated assets and 50% of the consolidated revenue, respectively, of the company, based on the amounts shown in the audited consolidated financial statements of the company and the member for the preceding fiscal year

and the total Amount Loaned by a firm on such issuer securities exceeds one-third of Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.

(b) Where the Amount Loaned reported relates to non-marginable securities of an issuer held in a cash account(s), where loan value has been extended pursuant to the weighted market value calculation set out in Schedule 4, Note 9, and the total Amount Loaned by a firm on such issuer securities exceeds one-third of Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over one-third of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.

(c) Where the Amount Loaned reported relates to arm's length marginable securities of an issuer (i.e., securities other than those described in note 9(a), or 9(b)), and the total Amount Loaned by a firm on such issuer securities exceeds two-thirds of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4), as most recently calculated, a concentration charge of an amount equal to 150% of the excess of the Amount Loaned over two-thirds of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the issuer security(ies) for which such charge is incurred.

(d) Where:

(i) The firm has incurred a concentration charge for an issuer position under either note 9(a) or 9(b) or 9(c); or

(ii) The Amount Loaned by a firm on any one issuer (other than issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) exceeds one-half of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4), as most recently calculated; **and**

(iii) The Amount Loaned on any **other issuer** exceeds one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) of Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4); **then**

(iv) A concentration charge on such other issuer position of an amount equal to 150% of the excess of the Amount Loaned on the **other issuer** over one-half (one-third in the case of issuers whose securities may be subject to a concentration charge under either Note 9(a) or 9(b) above) of the firm's Risk Adjusted Capital before securities concentration charge plus minimum capital (Stmt. B, line 4) is required unless the excess is cleared within five business days of the date it first occurs. For long positions, the concentration charge as calculated herein shall not exceed the loan value of the security(ies) for which such charge is incurred.

(e) For the purpose of calculating the concentration charges as required by notes 9(a), 9(b), 9(c) and 9(d) above, such calculations shall be performed for the largest five issuer positions by Amount Loaned in which there is a concentration exposure.

Other

10. (a) Where there is an over exposure in a security and the concentration charge as referred to above would produce either a capital deficiency or a violation of the Early Warning Rule, the Member firm must report the over exposure situation to the appropriate Joint Regulatory Body on the date the over exposure first occurs.

(b) A measure of discretion is left with the Joint Regulatory Bodies in dealing with the resolution of concentration situations, particularly as regards to time requirements for correcting any over exposure, as well as whether securities are carried in "readily saleable quantities".

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

EARLY WARNING TESTS - LEVEL 1

<u>Early Warning Level 1</u>

A. LIQUIDITY TEST

Is Early Warning Reserve (Stmt. C, line 5) less than 0? __________ **YES/NO**

B. CAPITAL TEST

1. Risk Adjusted Capital (RAC) *[Stmt. B, line 27]* $=============

2. Total Margin Required *[Stmt. B, line 22]* multiplied by 5% $=============

Is line 1 less than line 2? __________ **YES/NO**

C. PROFITABILITY TEST #1

	MONTHS	PROFIT OR LOSS FOR 6 MONTHS ENDING WITH CURRENT MONTH *[note 2]*	PROFIT OR LOSS FOR 6 MONTHS ENDING WITH PRECEDING MONTH *[note 2]*
1. Current month	_______	$__________	
2. Preceding month	_______	__________	$__________
3. 3rd month	_______	__________	__________
4. 4th month	_______	__________	__________
5. 5th month	_______	__________	__________
6. 6th month	_______	__________	__________
7. 7th month	_______		__________
8. TOTAL *[note 3]*		$=============	$=============
9. AVERAGE multiplied by -1		$=============	$=============
10A. RAC *[at questionnaire date]*		$=============	
10B. RAC *[at preceding month end]*			$=============
11A. Line 10A divided by line 9		$=============	
11B. Line 10B divided by line 9			$=============

Are both of the following conditions true:
1. Line 11A is greater than or equal to 3 but less than 6, and
2. Line 11B less than 6? __________ **YES/NO**

D. PROFITABILITY TEST #2

1. Loss for current month *[notes 2 and 4}* multiplied by -6 $=============

2. RAC *[at questionnaire date]* $=============

Is line 2 less than line 1? __________ **YES/NO**

DATE: ___________________________ SCHEDULE 13A

PART II
JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT

____
(Firm Name)

EARLY WARNING TESTS - LEVEL 2

Early Warning Level 2

A. LIQUIDITY TEST

Is Early Warning Excess (Stmt. C, line 3) < 0? __________ **YES/NO**

B. CAPITAL TEST

1. Risk Adjusted Capital (RAC) *[Stmt. B, line 27]* $=============
2. Total Margin Required *[Stmt. B, line 22]* multiplied by 2% $=============

Is line 1 less than line 2? __________ **YES/NO**

C. PROFITABILITY TEST #1

Is Schedule 13, Line 11A less than 3 AND
Schedule 13, Line 11B less than 6? __________ **YES/NO**

D. PROFITABILITY TEST #2

1. Loss for current month *[notes 2 and 4}* multiplied by -3 $=============
2. RAC *[at questionnaire date]* $=============

Is line 2 less than line 1? __________ **YES/NO**

E. PROFITABILITY TEST #3

	MONTHS	PROFIT OR LOSS FOR 3 MONTHS ENDING WITH CURRENT MONTH *[note 2]*
1. Current month	______	$__________
2. Preceding month	______	__________
3. Second preceding month	______	__________
4. TOTAL *[note 5]*		$=============
5. RAC *[at questionnaire date]*		$=============

Is line 4 greater than line 5? __________ **YES/NO**

F. FREQUENCY PENALTY

Has Member:

1. triggered Early Warning at least 3 times in the past 6 months or is RAC less than 0? __________ **YES/NO**
2. triggered Liquidity or Capital Tests on Schedule 13? ________ YES/NO
3. triggered Profitability Tests on Schedule 13? ________ YES/NO

Are lines 2 and 3 <u>both</u> YES? __________ **YES/NO**

[see notes and instructions]